

Investor Insight

Dekker Hewett Group | Independent. Trustworthy. Experienced.

Tax Treatment of ETFs and Mutual Funds for Non- Registered Accounts

Exchange-traded funds (ETFs) and mutual funds have become such popular investment vehicles that it is important to be familiar with the tax issues surrounding these types of funds when they are held in your non-registered accounts.

In general, there are two situations that would require you to report information in your annual income tax return: i) when a fund makes a distribution in the year; and/or, ii) when you dispose of all, or some, of your holdings in the fund.

Distributions

At the end of every calendar year in which it made a distribution, a fund is required to issue a tax reporting form. This tax slip will indicate the amount and nature of the distributions that you received.

The types of distributions that are included in your taxable income may consist of: dividends (eligible and/or those dividends other than eligible), capital gains, other income (which generally represents interest, rental, and/or business income) and foreign income.

The type of tax slip issued may vary. For example, if you own units of a mutual fund trust, you will receive a T3 slip — *Statement of Trust Income Allocations and Designations*. If you own shares of a mutual fund corporation or an exchange-traded fund, you will receive a T5 slip — *Statement of Investment Income*.

The tax slip should also indicate the amount, if any, of the distributions that are to be considered a return of capital. Although a return of capital is not subject to tax when received, it does have a tax implications in the future.

It is important to recognize that distributions by a fund can be made in cash and/or through a non-cash reinvestment in the fund. If a fund makes a non-cash distribution, you would still include the taxable components of the distributions in your income for the year. However, you would also add the reinvested amounts to your adjusted cost base ("ACB") in the fund, as explained in the next section.

Dekker Hewett Group
Canaccord Genuity Wealth Management
609 Granville St., Vancouver, BC, V7Y1H2
T: 604.699.0852
E: dhginfo@canaccord.com
www.dekkerhewettgroup.com

CANACCORD GENUITY WEALTH MANAGEMENT IS A DIVISION OF CANACCORD GENUITY CORP., MEMBER-CANADIAN INVESTOR PROTECTION FUND AND THE INVESTMENT INDUSTRY REGULATORY ORGANIZATION OF CANADA

This newsletter is solely the work of the author for the private information of clients. Although the author is a registered Investment Advisor at Canaccord Genuity Corp., this is not an official publication of Canaccord Genuity Corp. and the author is not a Canaccord Genuity Corp. analyst. The views (including any recommendation) expressed in this newsletter are those of the author alone, and are not necessarily those of Canaccord Genuity Corp. The information contained in this newsletter is drawn from sources believed to be reliable, but the accuracy and completeness of the information is not guaranteed, nor in providing it do the author or Canaccord Genuity Corp. assume any liability. This information is given as of the date appearing on this newsletter, and neither the author nor Canaccord Genuity Corp. assume any obligation to update the information or advise on further developments relating to information provided herein. This newsletter is intended for distribution in those jurisdictions where both the author and Canaccord Genuity Corp. are registered to do business in securities. Any distribution or dissemination of this newsletter in any other jurisdiction is prohibited. The holdings of the author, Canaccord Genuity Corp., its affiliated companies and holdings of their respective directors, officers and employees and companies with which they are associated may, from time to time, include the securities mentioned in this newsletter.

The preceding information is for general information only and does not constitute tax advice. All investors should consult with a qualified tax accountant.
Tax & Estate advice offered through Canaccord Genuity Wealth & Estate Planning Services.

FOR DISTRIBUTION IN CANADA ONLY

“ It is important to recognize that distributions by a fund can be made in cash and/or through a non-cash reinvestment in the fund”

Note that the structural differences between ETFs and traditional mutual funds can affect capital gains, as ETF sponsors do not need to sell underlying securities to raise cash for redemptions (instead, an exchange occurs, which is not considered a taxable event). This may reduce the likelihood of incurring capital gains.

Disposition

The disposition of a fund must be reported in your tax return in the year that it is sold. The calculation of the capital gain or loss resulting from the sale is determined by taking the net proceeds received after commissions or fees and subtracting the ACB of the fund sold.

The ACB of the fund is composed of the following amounts, if any: i) the total amount that you paid to buy the fund, including commissions; ii) plus the amount of all non-cash reinvested distributions; iii) less the return of the capital component of any distributions; and, iv) less the ACB of any previously sold shares or units.

It is important to maintain detailed records of your investments in order to calculate the ACB of a fund, particularly in situations where you are selling only a portion of your holdings, there have been returns of capital, and/or there have been reinvestments in the fund.